

AR29



Cover: Central Labrador Terrain

Canada, wisely developed and carefully conserved, can provide a standard of living and a quality of life as rich and satisfying as is found anywhere in the world.

— Rt. Hon. Pierre Elliott Trudeau
June 16, 1972

Officers

Chairman:
ROBERT D. MULHOLLAND

President and Chief Executive Officer:
WILLIAM D. MULHOLLAND

Executive Vice-President:
H. W. MACDONELL, Q.C.

Vice-President:
H. L. SNYDER, P.Eng.

Vice-President:
R. C. BERRY, C.A.

Vice-President:
R. D. BOIVIN, P.Eng.

Vice-President:
W. E. BRADFORD, C.G.A.

Vice-President:
DR. P. H. GRIMLEY, B.Sc., PhD.

General Counsel:
N. M. PETERS

Secretary:
M. CARLETON BURNES, C.A.

Treasurer:
ADRIAN M. S. WHITE, C.A.

Comptroller:
L. A. CARRIER, C.A.

Directors

ROBERT D. ARMSTRONG,
Toronto, Ontario
President,
Rio Algom Mines Limited

*HENRY BORDEN, S.M., C.M.G., Q.C.,
Toronto, Ontario
Former Chairman,
Brinco Limited

THE HON. MAURICE BOURGET, P.C.,
Lévis, Quebec
Member of the Senate of Canada

BERNARD D. BROEKER,
Bethlehem, Pa., U.S.A.
Executive Vice-President,
Bethlehem Steel Corporation

PAUL DESMARAIS,
Montreal, Quebec
Chairman and Chief Executive Officer,
Power Corporation of Canada Limited

*SIR VAL DUNCAN, O.B.E.,
London, England
Chairman and Chief Executive,
The Rio Tinto-Zinc Corporation Limited

G. PETER FLECK,
New York, U.S.A.
Chairman,
New Court Securities Corporation

LEWIS W. FOY,
Bethlehem, Pa., U.S.A.
President,
Bethlehem Steel Corporation

J. GEORGES-PICOT, K.B.E.,
Paris, France
Honorary Chairman,
Compagnie Financière de Suez

J.-P. GIGNAC, Eng.,
Montreal, Quebec
President and General Manager,
Sidbec-Dosco

*SAM HARRIS,
New York, U.S.A.
Senior Partner,
Fried, Frank, Harris, Shriver & Jacobson

RALPH B. McKIBBIN,
Ottawa, Ontario
Former Deputy Governor,
Bank of Canada.

J. H. MOWBRAY JONES,
Montreal, Quebec

*H. W. MACDONELL, Q.C.,
Montreal, Quebec
Executive Vice-President,
Brinco Limited;
President,
Churchill Falls (Labrador)
Corporation Limited

*ROBERT D. MULHOLLAND,
Montreal, Quebec
Chairman,
Brinco Limited;
Vice-Chairman of the Board,
Bank of Montreal

*WILLIAM D. MULHOLLAND,
Montreal, Quebec
President and Chief Executive Officer,
Brinco Limited;
Chairman and Chief Executive Officer,
Churchill Falls (Labrador)
Corporation Limited

GORDON F. PUSHIE,
St. John's, Newfoundland
Industrial Consultant

EDMUND L. de ROTHSCHILD, T.D.,
London, England
Chairman,
N. M. Rothschild & Sons Limited

H. GREVILLE SMITH, C.B.E.,
Montreal, Quebec
Former Chairman,
Brinco Limited;
President,
Canadian International Investment
Trust Limited

ARTHUR S. TORREY,
Montreal, Quebec

*SIR MARK TURNER,
London, England
Deputy Chairman,
The Rio Tinto-Zinc Corporation Limited

**Member of the Executive Committee*

REGISTERED OFFICE
Crosbie Place, St. John's, Newfoundland

EXECUTIVE OFFICE
One Westmount Square,
Montreal 216, Quebec

TRANSFER AGENT AND REGISTRAR
The Royal Trust Company,
St. John's, Newfoundland;
Montreal, Quebec; Toronto, Ontario

SHARES LISTED
Montreal Stock Exchange
Toronto Stock Exchange

*On peut obtenir le texte français de ce rapport auprès
du service des Relations publiques, Brinco Limited,
Un, Westmount Square, Montréal 216 (Québec).*

Annual General Meeting

*The Company will hold its Annual General
Meeting on Thursday, April 12, 1973, at
11:00 a.m., Eastern Standard Time, in The
Cinema Westmount Square,
One Westmount Square,
Montreal 216, Quebec.*

...from the President

The event during the past year which stands out most clearly in the minds of most of us is the ceremony held in June marking the official inauguration of the Churchill Falls Development. While a good deal of work still remains to be done, it is fair to say that the divide has been crossed. As is usually the case, it was a long and arduous climb which all are thankful to have behind them. While it is tempting to dwell upon difficulties overcome and perhaps to succumb a little to the feeling of self-satisfaction, I prefer the emphasis placed upon these events by the Rt. Hon. Pierre Elliott Trudeau.

You will observe that a copy of the remarks delivered by the Prime Minister at Churchill Falls accompanies this report. This is being done not because his remarks were made at Churchill Falls, although we are certainly pleased that this was the case, but because Mr. Trudeau made a point, often overlooked, which is worth remembering.

"This is Canada," he said, "this excitement, this opportunity, this self-confidence, this accomplishment. It has never been a land for the faint of heart. Nor is it now. Canada remains as it always has been—a land of vivid character; a land for men and women who are not ashamed to dream and not hesitant to pursue their dreams; a land of enthusiasm, a land of achievement."



There are problems. Of course there are problems, as there will be until the end of time. A dynamic society will create new ones as fast as the old ones are solved. But this must not be allowed to obscure or deflect, much less to destroy, the essentially positive, creative impetus which is the true strength of a society and the source of fulfillment of its members. This impetus, constructively channelled and humanely directed, can continue to meet the standard laid down by the Prime Minister that "though man imposes his will on nature, he can do so in harmony with nature, and ... this process can be noble and fruitful."

The problems of society which afflict us today, and which seem to some to exceed in abundance and vexatiousness anything experienced in the past, implausible as this may be, can too easily be allowed to overshadow the positive forces, which clearly predominate. In the long run, efforts to encourage and strengthen the positive forces in our society will prove the most rewarding, just as a healthy, strong organism is more resistant to disease than a weakened one. In the mood of the times, however, one senses a compulsion to seek solutions to our problems by attacking and thereby further weakening the healthy organisms, much in the way of the 18th century surgeon who in his misguided zeal to alleviate his patient's complaint would "bleed" him, thereby contributing not to his recovery but to his further debilitation.

Private enterprise, so-called, although these days it is anything but private, is a form of social organization prompted and sustained by shared interests, largely although not entirely economic in nature. Whatever its shortcomings, it is unquestionably the most creative and vital economically-oriented force yet devised by man. It is also the most productive. In the eyes of its critics this bounty, from which almost all of us benefit, is considered a fault because it is said to be the product of single-minded pursuit of materialistic goals. Overlooked is the obvious satisfaction drawn by people of all skills from their participation in this stream of creative activity. The feeling of personal fulfillment gained

from participation in such activities contributes, as much as the material aspects, in fuelling this vital, constructive force in our society.

The Prime Minister by drawing attention to some of the strong positive forces in Canada—only one of which have I singled out for comment—reminds us all of the need for perspective in our approach to current problems. Given the nature of these problems and the formidable challenges which face Canada in the years ahead, it is difficult to see how measures which further weaken the private enterprise sector can have any but the most unfortunate consequences.

In April our company celebrates its twentieth birthday. Twenty years is not a very long time so our observance of the event will be restrained. Those twenty years, however, have been busy and exciting ones and have resulted in a fair measure of constructive achievement. Our activities have been referred to, generously, as “a strong beat of the country’s adventurous heart.” In the course of the next twenty years we hope it will beat even more strongly, to the benefit of Canada and of those associated with us, our staff and our shareholders.

If this hope is realized, it will be due in large part to the efforts of the men and women who guided the company through its first two decades. Inevitably, however, the time comes when they must give less of themselves and look to others to assume a greater share of the burden. At the Annual General Meeting in April, four of our directors will retire from active service under the mandatory retirement provisions of the Company’s By-Laws. They have, individually and collectively, made an immense contribution to this company.

They are:

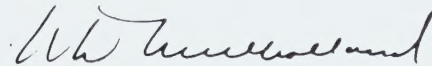
Henry Borden, S.M., C.M.G., Q.C., a director since 1963 and a former Chairman of the Company, under whose leadership the Letter of Intent with Hydro-Quebec was negotiated and signed, permitting work to commence on the Churchill Falls project;

Jacques Georges-Picot, K.B.E, Honorary Chairman, Compagnie Financière de Suez, a director since 1958, whose counsel and international perspective proved invaluable during the formative years of the Company;

H. Greville Smith, C.B.E., President, Canadian International Investment Trust Limited, a director since 1959 and a former Chairman of the Company, under whose leadership the pioneering Twin Falls project was carried out;

Arthur S. Torrey, Honorary Chairman, Pitfield, Mackay, Ross and Company Limited, a director since 1954, whose 19 years of devoted service, particularly in connection with financial matters have spanned almost the lifetime to date of Brinco.

With them goes our enduring gratitude and affection.



William D. Mulholland,
President and Chief Executive Officer

Montreal, March 14, 1973



Lower Churchill River, looking upstream to site of proposed Gull Island development.



Near Pistolet Inlet, north Labrador coast.

Brinco Limited **Report of Directors to Shareholders**

HYDRO POWER

The Churchill Falls Development

The Churchill Falls hydro-electric development moved into commercial operation last year when four turbine-generator units began delivering power to Hydro-Quebec, its principal customer, under a long-term contract.

The first two of the eventual 11 units, each of 475 megawatts, actually began producing commercial power in December, 1971, well in advance of the May 1, 1972, contract date. Units 3 and 4 were brought on stream in June and July, respectively.

At the end of 1972, construction was 90 per cent complete, and the development remained on schedule and within cost estimates. During 1972, total CFLCo revenue amounted to \$14.7 million, producing net income for the year of \$4,288,000.

Under the accelerated construction schedule announced early in 1972, three more units will go on stream during 1973, three more in 1974 and the last in 1975.

Most of the construction work during 1973 will be related to the commissioning of units 5, 6 and 7. To be completed is the remaining electrical and mechanical work required for the operation of the three units. The third of three 735 kV transmission lines from Churchill Falls to the Hydro-Quebec system will be placed in service during 1973. Unit bays 8, 9 and 10 will be concreted, and penstock steel liners for units 7, 8 and 9 will be embedded.

The Gabbro water control structure, which links the Ossokmanuan and Smallwood reservoirs, was operational by the end of 1972 and was completed early in 1973 with the installation of permanent hoist housings.

The annual report of Churchill Falls (Labrador) Corporation Limited, which accompanies this report, contains more detailed information on the operations of that company.

(Continued on page 17)

Consolidated Balance Sheet as at December 31, 1972

| Assets | 1972 | 1971 |
|--|---------------------|---------------------|
| Current assets: | | |
| Cash and short-term deposits | \$ 3,293,000 | \$ 5,014,000 |
| Accounts receivable | 910,000 | 1,492,000 |
| Amount receivable on disposal of mining assets (note 2) | 575,000 | — |
| Supplies and prepaid expenses | 52,000 | 346,000 |
| Total current assets | <u>4,830,000</u> | <u>6,852,000</u> |
| Investment in Churchill Falls (Labrador) Corporation Limited (notes 1 and 3) | 53,418,000 | 50,975,000 |
| Investment in Abitibi Asbestos Mining Company Limited, at cost (note 4) | 2,000,000 | — |
| Land, buildings and equipment, at cost less accumulated depreciation \$478,000; 1971—\$4,215,000 | 107,000 | 1,072,000 |
| Pre-production expenditures less amounts written off | — | 178,000 |
| Expenditures on Lower Churchill River project (note 10) | 3,065,000 | 2,968,000 |
| Expenditures on natural resources, rights, concessions and surveys less amounts written off (note 10) | 930,000 | 487,000 |
| Organization and financing expenses | 2,427,000 | 2,427,000 |
| | <u>\$66,777,000</u> | <u>\$64,959,000</u> |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities (including to unconsolidated subsidiary \$79,000; 1971—\$37,000) | \$ 807,000 | \$ 607,000 |
| Amount due on investment in Abitibi Asbestos Mining Company Limited (note 4) | 212,000 | — |
| Total current liabilities | <u>1,019,000</u> | <u>607,000</u> |
| Shareholders' equity: | | |
| Capital stock (notes 5 and 11) | 66,529,000 | 66,382,000 |
| Retained earnings [deficit] (note 3) | [771,000] | [2,030,000] |
| | <u>65,758,000</u> | <u>64,352,000</u> |
| | <u>\$66,777,000</u> | <u>\$64,959,000</u> |

See accompanying notes.

On behalf of the Board:

William D. Mulholland, Director

Harry W. Macdonell, Director

Consolidated Statement of Income and Retained Earnings [Deficit] for the year ended December 31, 1972

| | 1972 | 1971 |
|---|---------------------|----------------------|
| Revenue: | | |
| Income on short-term deposits | \$ 289,000 | \$ 461,000 |
| Sales of copper concentrates (note 2) | 2,250,000 | 3,114,000 |
| Other sales | 44,000 | 24,000 |
| Total revenue | <u>2,583,000</u> | <u>3,599,000</u> |
| Expenses: | | |
| Operating and administrative | 2,171,000 | 4,021,000 |
| Depreciation and pre-production expenditures written off | 385,000 | 1,464,000 |
| Expenditures on natural resources, rights, concessions and surveys written off | — | 142,000 |
| Exploration expenditures | 654,000 | 544,000 |
| Total expenses | <u>3,210,000</u> | <u>6,171,000</u> |
| Operating profit [loss] for the year | <u>[627,000]</u> | <u>[2,572,000]</u> |
| Equity in net income of Churchill Falls (Labrador) Corporation Limited | <u>2,443,000</u> | <u>295,000</u> |
| Net income [loss] for the year before extraordinary item (note 8) | 1,816,000 | [2,277,000] |
| Mine shutdown costs (note 2) | 557,000 | — |
| Net income [loss] for the year (note 8) | 1,259,000 | [2,277,000] |
| Retained earnings [deficit] at beginning of year | <u>[2,030,000]</u> | <u>247,000</u> |
| Retained earnings [deficit] at end of year | <u>\$ [771,000]</u> | <u>\$[2,030,000]</u> |

See accompanying notes.

Consolidated Statement of Source and Use of Funds for the year ended December 31, 1972

| | 1972 | 1971 |
|---|---------------------|---------------------|
| Source of funds: | | |
| Disposal of land, buildings and equipment—net | \$ 758,000 | \$ — |
| Issue of capital stock | 147,000 | 230,000 |
| | <u>905,000</u> | <u>230,000</u> |
| Use of funds: | | |
| Operating loss before equity in net income of Churchill Falls (Labrador) Corporation Limited | 627,000 | 2,572,000 |
| Depreciation and pre-production expenditures written off | [385,000] | [1,464,000] |
| Mine shutdown costs | 557,000 | — |
| Expenditures on natural resources, rights, concessions and surveys written off | — | [142,000] |
| | <u>799,000</u> | <u>966,000</u> |
| Investment in shares of Abitibi Asbestos Mining Company Limited | 2,000,000 | — |
| Expenditures on Lower Churchill River project | 97,000 | 368,000 |
| Expenditures on natural resources, rights, concessions and surveys | 443,000 | 450,000 |
| Land, buildings and equipment—net | — | 264,000 |
| | <u>3,339,000</u> | <u>2,048,000</u> |
| Decrease in working capital | 2,434,000 | 1,818,000 |
| Working capital at beginning of year | 6,245,000 | 8,063,000 |
| Working capital at end of year | <u>\$ 3,811,000</u> | <u>\$ 6,245,000</u> |

See accompanying notes.

Notes to the Consolidated Financial Statements for the year ended December 31, 1972

(1) Principles of Consolidation:

The consolidated financial statements of Brinco Limited include the accounts of its subsidiaries as follows:

| | Ownership |
|---|-----------|
| British Newfoundland Exploration Limited ("Brinex") | 100% |
| Brinco (Quebec) Limited | 100% |
| Gull Island Power Company Limited | 100% |
| Iskut Pulpower Ltd. | 60% |

The Company owns 56.96% of the issued share capital of Churchill Falls (Labrador) Corporation Limited ("Churchill Falls"). The investment in Churchill Falls is carried on an equity basis. As the principal assets and the credit resources of Churchill Falls cannot be transferred to the Company, consolidation of its accounts with those of the Company does not produce financial statements which are as meaningful and informative as the separate financial statements of the Company and Churchill Falls.

(2) Whales Back Mine:

The Whales Back mine was closed on June 3, 1972. Brinex has disposed of substantially all of the mining assets for approximately their net book values.

Sales of copper concentrates include an amount of \$454,000 (\$1,878,000 in 1971) in respect of copper concentrates delivered during the year for which final settlement had not been received. These shipments have been valued at an estimated copper price of 48 cents (40 cents in 1971) per pound, less costs of smelting, refining and freight.

(3) Investment in Churchill Falls (Labrador) Corporation Limited:

| Shares—at cost | Company's share of net income since acquisition | | Total | |
|----------------|--|-------------|--------------|--------------|
| | 1972 | 1971 | 1972 | 1971 |
| \$49,647,000 | \$3,771,000 | \$1,328,000 | \$53,418,000 | \$50,975,000 |

A proportion of the Company's shareholding in Churchill Falls is deposited under a Voting Trust Agreement between the Company and Quebec Hydro-Electric Commission. The covenants of the debt instruments of Churchill Falls prohibit that company from paying cash dividends prior to completion of the Churchill Falls Project and place restrictions on the payment of cash dividends thereafter.

(4) Investment in Abitibi Asbestos Mining Company Limited:

During 1972 an agreement was entered into with Abitibi Asbestos Mining Company Limited ("Abitibi") under which the Company purchased 800,000 shares of Abitibi representing 18% of the outstanding share capital, for a total consideration of \$500,000 in cash and a commitment to spend \$1.5 million on the construction of a pilot plant and related pre-production studies on the asbestos properties of Abitibi. Should the Company's expenditures associated with construction of the pilot plant and related pre-production studies exceed \$1.5 million, the excess will, if the Company makes a production decision, be converted into additional shares of Abitibi on the basis of one share for each \$2.50 of such excess. Otherwise, such excess, at the option of Abitibi, will be refunded to the Company in cash and/or shares on the basis of one share for each \$2.50 of excess.

Until July 1976, the Company has the right to make a production decision and in connection therewith, the Company has agreed, should it make such decision, to purchase a sufficient number of treasury shares at \$2.50 each to give it 51% of the share capital then outstanding.

In the event that a production decision is made, the Company may be obligated, as required by lenders who provide senior financing, to give completion guarantees and to provide any additional funds in the event of an overrun in relation to the project cost estimates. In addition, if required for purposes of arranging senior financing, the Company will undertake to advance up to \$1.5 million.

The quoted market value of the investment in Abitibi was \$1,440,000 as at December 31, 1972. In view of the relative size and nature of the Company's shareholding and the limited trading volume in Abitibi shares, the quoted market value is not necessarily indicative of the value of this investment.

(5) *Capital Stock:*

(a) Common shares without nominal or par value authorized and issued as at December 31, were:

| | Shares | | Amount | |
|---------------------------------------|------------|------------|--------------|--------------|
| | 1972 | 1971 | 1972 | 1971 |
| Authorized | 25,000,000 | 25,000,000 | | |
| Issued and fully paid (note 11) | 23,001,644 | 22,964,234 | \$66,529,000 | \$66,382,000 |

(b) The following shares were issued for cash:

| | Shares | | Amount | |
|---|---------------|---------------|------------------|------------------|
| | 1972 | 1971 | 1972 | 1971 |
| Under the 1970 Stock Option Plan—5,000 (27,000 in 1971) to officers, including officers who were also directors | 31,410 | 56,749 | \$118,000 | \$213,000 |
| Under options granted on October 10, 1968 .. | 6,000 | 3,500 | 29,000 | 17,000 |
| | <u>37,410</u> | <u>60,249</u> | <u>\$147,000</u> | <u>\$230,000</u> |

(c) Options granted in 1972:

Under the Provisions of the 1970 Stock Option Plan

| Date of grant | Option price per share | Total shares | Date of expiry |
|-------------------|------------------------|---------------|-------------------|
| February 24, 1972 | \$5.18 | 9,500 | February 24, 1977 |
| February 28, 1972 | 4.95 | 7,500 | February 28, 1977 |
| April 20, 1972 | 5.63 | 13,500 | April 20, 1977 |
| June 15, 1972 | 5.85 | 46,000 | June 15, 1977 |
| October 27, 1972 | 5.07 | 8,000 | October 27, 1977 |
| | | <u>84,500</u> | |

During 1972, no options were granted to officers including officers who were also directors.

During 1971, 103,500 shares (including 40,000 shares to officers including officers who were also directors) were granted under option at prices varying from \$4.17 to \$5.18 per share for periods up to October 28, 1976.

(d) At December 31, 1972, options were outstanding on 416,674 shares (376,084 in 1971)—208,168 shares (207,500 in 1971) to officers including officers who were also directors—exercisable at prices varying from \$3.70 to \$5.85 per share (\$3.70 to \$5.18 in 1971) for periods up to October 27, 1977 (October 28, 1976 in 1971).

(6) *Commitment and Contingent Liability:*

Commitment:

In 1953 the Government of Newfoundland and the Company entered into an agreement ("Principal Agreement") whereby the Company was granted options on extensive natural resource concessions within the Province of Newfoundland. Under the terms of the Principal Agreement, as amended, the Company is obligated to pay to the Government of Newfoundland an annual rental equal to 8% of the consolidated net profits before income taxes (as defined) of the Company and its subsidiary companies, excluding Churchill Falls, resulting from the operations of the concessions and rights granted by the Principal Agreement.

Contingent Liability:

Pursuant to the closing of the Whales Back mine, Brinex notified its supplier of power of its intention to terminate the related power contract with effect from September 30, 1972. The extent of Brinex' obligation, if any, with respect to this matter, is not now known.

(7) *Income Taxes:*

For income tax purposes, Brinex claims as a deduction, exploration, depreciation and pre-production expenditures sufficient to offset income that would otherwise be taxable. At December 31, 1972, depreciation and amounts written off since the commencement of operations exceed allowances claimed for tax purposes by \$12,035,000 (\$10,046,000 in 1971). Also, subsequent to 1976, Brinex will be entitled to claim the earned depletion allowances which will have been accumulated from November 7, 1969, providing it has production profits. As at December 31, 1972, the balance of eligible expenditures against which such earned depletion may be claimed amounted to \$4,850,000 (\$3,675,000 in 1971).

In addition, the Company has losses carried forward for income tax purposes.

Brinco LIMITED

| (8) <i>Earnings per Share:</i> | 1972 | 1971 |
|---|------|--------|
| Net income [loss] before extraordinary item | 7.9¢ | [9.9c] |
| Net income [loss] for the year | 5.5¢ | [9.9c] |

(9) *Company Directors' and Officers' Remuneration:*

| Company Directors' and Officers' Remuneration: | | | Aggregate Remuneration | | |
|--|------------|----|------------------------|---------------------------|-----------------|
| | | | Number | Company (Consolidated) | Churchill Falls |
| Directors | 1972 | 21 | \$ 49,000 | \$ 22,000 | \$ 71,000 |
| | 1971 | 21 | 36,000 | 21,000 | 57,000 |
| Officers | 1972 | 12 | 52,000 | 143,000 | 195,000 |
| | 1971 | 11 | 98,000 | 106,000 | 204,000 |

There were three officers who were also directors in 1971 and 1972.

In 1971 and 1972, four of the officers did not receive remuneration as officers from any of the above companies.

(10) *Reclassification:*

Certain expenditures amounting to \$57,000 which had been included with "Expenditures on Lower Churchill River project" in previous years, were reclassified to "Expenditures on natural resources, rights, concessions and surveys" in 1972. The 1971 comparative figures have been adjusted accordingly.

(11) *Subsequent Event:*

On February 15, 1973, the Company entered into agreements to issue an aggregate of 1,200,000 common shares for a cash consideration of \$7,680,000, subject to the approval of the appropriate stock exchanges and regulatory authorities.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Brinco Limited as of December 31, 1972, and the consolidated statements of income and retained earnings (deficit) and source and use of funds for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies at December 31, 1972, and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.,
Chartered Accountants

Montreal, Que.,
February 15, 1973

Balance Sheet as at December 31, 1972

| Assets | 1972 | 1971 |
|---|-----------------------------|-----------------------------|
| Current assets: | | |
| Cash and short-term deposits | \$ 11,870,000 | \$ 16,519,000 |
| Accounts receivable (including from affiliate \$154,000; 1971—\$164,000) | 5,997,000 | 3,685,000 |
| Dividend receivable from Twin Falls Power Corporation Limited | 288,000 | 200,000 |
| Supplies and prepaid expenses | 1,501,000 | 757,000 |
| Total current assets | 19,656,000 | 21,161,000 |
| Investment in shares of Twin Falls Power Corporation Limited (note 1) | 2,672,000 | 2,696,000 |
| Churchill Falls power project, at cost | 716,242,000 | 602,477,000 |
| Less accumulated depreciation (note 2) | 8,608,000 | 6,560,000 |
| | 707,634,000 | 595,917,000 |
| Trans-Labrador road, less \$584,000 (1971—nil) written off (note 2) | 1,753,000 | 2,050,000 |
| Unamortized debt discount and financing expenses (notes 3 and 9) | 6,730,000 | 6,120,000 |
| | <u>\$738,445,000</u> | <u>\$627,944,000</u> |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 21,682,000 | \$ 28,109,000 |
| Long-term debt (note 4) | 625,823,000 | 514,422,000 |
| Deferred income taxes | 1,239,000 | — |
| Shareholders' equity: | | |
| Capital stock (note 5) | 82,900,000 | 82,900,000 |
| Retained earnings (note 6) | 6,801,000 | 2,513,000 |
| | 89,701,000 | 85,413,000 |
| | <u>\$738,445,000</u> | <u>\$627,944,000</u> |

See accompanying notes.

On behalf of the Board:

Harry W. Macdonell, Director

Robert A. Boyd, Director



CHURCHILL FALLS
(LABRADOR) CORPORATION LIMITED

**Statement of Income and Retained Earnings
for the year ended December 31, 1972**

| | 1972 | 1971 |
|--|---------------------|---------------------|
| Revenue: | | |
| Sales of power (note 8) | \$13,999,000 | \$ 92,000 |
| Rental of rights and facilities to Twin Falls Power Corporation Limited | 735,000 | 735,000 |
| Total revenue | <u>14,734,000</u> | <u>827,000</u> |
| Expenses: | | |
| Plant and corporate cost (note 9) | 1,770,000 | — |
| Horsepower royalty [note 7 (c)] | 483,000 | 14,000 |
| Newfoundland rental [note 7 (c)] | 504,000 | 76,000 |
| Interest and amortization of debt discount and financing expenses (notes 3 and 9) | 4,494,000 | — |
| Depreciation and amount written off Trans-Labrador road (note 2) | 2,632,000 | 813,000 |
| Total expenses | <u>9,883,000</u> | <u>903,000</u> |
| Operating profit [loss] for the year | 4,851,000 | [76,000] |
| Equity in net income of Twin Falls Power Corporation Limited for the year | <u>676,000</u> | <u>594,000</u> |
| Net income before income taxes | 5,527,000 | 518,000 |
| Deferred income taxes | 1,239,000 | — |
| Net income for the year | 4,288,000 | 518,000 |
| Retained earnings at beginning of year | 2,513,000 | 1,995,000 |
| Retained earnings at end of year | <u>\$ 6,801,000</u> | <u>\$ 2,513,000</u> |

See accompanying notes.

**Statement of Source and Use of Funds
for the year ended December 31, 1972**

Source of funds:

| | 1972 | 1971 |
|---|--------------------|--------------------|
| From current operations: | | |
| Net income [loss] before equity in net income of Twin Falls Power Corporation Limited | \$ 3,612,000 | \$ [76,000] |
| Deferred income taxes | 1,239,000 | — |
| Depreciation and amount written off Trans-Labrador road | 2,632,000 | 813,000 |
| Amortization of debt discount and financing expenses | 32,000 | — |
| | <u>7,515,000</u> | <u>737,000</u> |
| Dividends from Twin Falls Power Corporation Limited | 700,000 | 575,000 |
| Long-term debt: | | |
| Bank loan | 34,000,000 | — |
| First Mortgage Bonds Series A | 68,326,000 | 147,187,000 |
| First Mortgage Bonds Series B | 9,075,000 | 10,025,000 |
| | <u>119,616,000</u> | <u>158,524,000</u> |

Use of funds:

| | | |
|---|---------------------|---------------------|
| Development of Churchill Falls power project | 113,765,000 | 155,880,000 |
| Trans-Labrador road | 287,000 | 2,050,000 |
| Debt discount and financing expenses | 642,000 | 815,000 |
| | <u>114,694,000</u> | <u>158,745,000</u> |
| Decrease [increase] in working capital deficiency | 4,922,000 | [221,000] |
| Working capital deficiency at beginning of year | 6,948,000 | 6,727,000 |
| Working capital deficiency at end of year | <u>\$ 2,026,000</u> | <u>\$ 6,948,000</u> |

See accompanying notes.



Notes to the Financial Statements for the year ended December 31, 1972

(1) *Investment in Shares of Twin Falls Power Corporation Limited:*

Churchill Falls (Labrador) Corporation Limited ("Churchill Falls") owns voting control (66-2/3%) of Twin Falls Power Corporation Limited ("Twin Falls"). However, such shares represent only a 33-1/3% interest in the equity of Twin Falls.

In view of the fact that the equity interest in Twin Falls is 33-1/3% and as the principal assets and the credit resources of Twin Falls cannot be transferred to Churchill Falls, consolidation of its accounts with those of Churchill Falls does not produce financial statements which are as meaningful and informative as the individual financial statements of the companies. The investment in Twin Falls is carried on an equity basis.

| | 1972 | | 1971 |
|--|--------------------|-----------|--------------------|
| Original cost | \$2,500,000 | | \$2,500,000 |
| Equity in retained earnings at beginning of year | \$196,000 | \$177,000 | |
| Equity in net income for the year | 676,000 | 594,000 | |
| | 872,000 | 771,000 | |
| Dividends for the year | 700,000 | 575,000 | 196,000 |
| | <u>\$2,672,000</u> | | <u>\$2,696,000</u> |

(2) *Depreciation:*

With the commencement of commercial delivery of power on May 1, 1972 under the terms of the power contract with Quebec Hydro-Electric Commission ("Power Contract"), Churchill Falls has adopted the policy of providing depreciation at a rate of 1½% per annum on a straight-line basis on the capital cost of the Churchill Falls Power Project ("Project"). This rate is applied in the proportion of the number of units generating power under the terms of the Power Contract to the 10 units which will be so generating upon completion of the Project. During the period from January 1 to April 30, 1972, Churchill Falls provided depreciation on a basis consistent with that of prior years.

The cost of the Trans-Labrador road is being written off over four years, commencing in 1972.

(3) *Unamortized Debt Discount and Financing Expenses:*

Certain expenditures amounting to \$795,000, which had been included in the cost of the Project in previous years, were reallocated to financing expenses in 1972. The 1971 comparative figures have been adjusted accordingly.

With effect from May 1, 1972, debt discount and financing expenses are being amortized over the term of the First Mortgage Bonds. The charge to operations is in the proportion of the number of units generating power under the terms of the Power Contract to the 10 units which will be so generating upon completion of the Project.

(4) *Long-term Debt:*

| | Issued and Outstanding | | | 1971 |
|---|------------------------|----------------------|---------------|----------------------|
| | 1972 | | | |
| First Mortgage Bonds: | | | | |
| 7¾% Series A due December 15, 2007 | | | | |
| Authorized: | | | | |
| \$500,000,000 (U.S.) | \$440,300,000 | \$453,598,000 | \$371,300,000 | \$385,272,000 |
| | (U.S.) | | (U.S.) | |
| 7-7/8% Series B due December 15, 2007 | | | | |
| Authorized: | | | | |
| \$50,000,000 | | 38,225,000 | | 29,150,000 |
| Bank Loan | | | | |
| Authorized: | | | | |
| \$150,000,000 | | 34,000,000 | | — |
| General Mortgage Bonds: | | | | |
| 7½% due three years after latest maturity of any First Mortgage Bonds | | | | |
| Authorized: | | | | |
| \$100,000,000 | | 100,000,000 | | 100,000,000 |
| | | <u>\$625,823,000</u> | | <u>\$514,422,000</u> |

First Mortgage Bonds

The First Mortgage Bonds Series A are carried in the accounts at the proceeds realized in Canadian dollars.

Pursuant to the Bond Purchase Agreements, the authorized but unissued First Mortgage Bonds at December 31, 1972 are scheduled to be issued in 1973.

The First Mortgage Bonds are repayable in semi-annual fixed and contingent sinking fund instalments commencing June, 1978.

Bank Loan

Under the terms of an agreement with a consortium of Canadian banks, Churchill Falls is provided with a credit not exceeding \$150,000,000 at any time outstanding. The agreement provides for the issue of revolving 90-day notes. At December 31, 1972, the rate of interest payable on the outstanding bank loan was 6½%, ½ of 1% over the prime rate charged by Canadian banks prevailing at the date of issue of each note. On December 31, 1975, or such earlier date as shall be designated by Churchill Falls, the amount of the then outstanding notes is convertible into a term loan repayable in equal semi-annual instalments to December 31, 1978.

The Bank loan is subordinate to the First Mortgage Bonds.

General Mortgage Bonds

The Deed of Trust and Mortgage securing the General Mortgage Bonds provides for semi-annual sinking fund payments commencing in June of the fourth year following the completion of the Project. Each payment will be an amount equal to 1% of the aggregate principal amount outstanding on January 1 preceding each payment date. The General Mortgage Bonds are subordinate to the First Mortgage Bonds and the bank loan.

(5) *Capital Stock:*

Common shares without nominal or par value authorized and issued as at December 31, 1971 and 1972, were:

| | Shares | Amount |
|-----------------------------|------------|--------------|
| Authorized | 10,000,000 | |
| Issued and fully paid | 8,759,999 | \$82,900,000 |

There are restrictions on the issue of further capital stock without the approval of the holders of at least 75% of the outstanding common shares.

(6) *Dividend Restrictions:*

The covenants of the debt instruments of Churchill Falls prohibit the payment of cash dividends by Churchill Falls prior to completion of the Project and place restrictions on the payment of cash dividends thereafter.

(7) *Commitments and Contingent Liabilities:*

- (a) At December 31, 1972, Churchill Falls had entered into contracts related to the Project involving expenditures after that date estimated at \$39,000,000. This includes an amount based on an evaluation of outstanding claims.
- (b) At December 31, 1972, Churchill Falls was defending two legal actions arising out of claims submitted by certain contractors. In the opinion of Churchill Falls management, such litigation will not result in significant financial liability.
- (c) Under the terms of The Churchill Falls (Labrador) Corporation Limited (Lease) Act, 1961, and amendments thereto, Churchill Falls has entered into a 99-year lease covering the water power potential of the Upper Churchill Watershed and is required to pay an annual rental of 8% of the consolidated net profits before income taxes (as defined) and an annual royalty of 50 cents per horsepower year generated (as defined).
- (d) Churchill Falls has a sublease with Twin Falls giving that company the right to develop the hydro-electric power potential of the Unknown River, a tributary of the Churchill River, at the site of the Twin Falls plant. The sublease expires December 31, 1989, but may be renewed for a term of 25 years under certain conditions, if Twin Falls so requests. Under the terms of the sublease, Churchill Falls has given notice to Twin Falls that a suspension of certain of its rights under the sublease will become effective on a date not earlier than June 30, 1973, nor later than June 30, 1974, with the effect that Churchill Falls will have the right to divert the flow of water from the Twin Falls plant and to use the facilities of Twin Falls as required. In consideration for this suspension of rights, Churchill Falls will be required to deliver to Twin Falls, at an agreed price, during the unexpired term of the sublease or any renewal thereof, horsepower equivalent to the installed horsepower of the Twin Falls plant. In addition, Churchill Falls will be required, at its own expense, to keep and maintain in good working order all structures, works and plant of Twin Falls.

(8) *Sales of Power:*

Quebec Hydro-Electric Commission and Churchill Falls have entered into a Power Contract dated May 12, 1969, providing for the purchase of substantially all the power from the Project for an initial period of approximately 40 years with a renewal for a further period of 25 years.

During the period from May 1, 1972 to November 30, 1972 there were two units generating power under the terms of the Power Contract and three such units during December. During this period, the Company derived approximately \$400,000 from the delivery of excess power made possible by use of units not required to meet contract commitments.

(9) *Cost Allocations:*

Plant and corporate costs and net interest expense are charged to operations in the proportion of the number of units generating power under the terms of the Power Contract to the 10 units which will be so generating upon completion of the Project. The balance of these costs is included in the capital cost of the Project.

An analysis of interest and amortization of debt discount and financing expenses is as follows:

| | 1972 | 1971 |
|---|---------------------|-------------------|
| Gross interest | \$42,538,000 | \$34,227,000 |
| Less: Interest income | 773,000 | 2,069,000 |
| Hydro-Quebec payments (see below) | 11,480,000 | 9,300,000 |
| | <u>12,253,000</u> | <u>11,369,000</u> |
| Net interest expense | 30,285,000 | 22,858,000 |
| Allocated to capital | 25,823,000 | 22,858,000 |
| Charged to operations | 4,462,000 | — |
| Amortization of debt discount and financing expenses (see note 3) | 32,000 | — |
| | <u>\$ 4,494,000</u> | <u>\$ —</u> |

Under the terms of the Power Contract, Quebec Hydro-Electric Commission is obliged to pay to Churchill Falls a portion of the interest charges on the long-term debt of Churchill Falls.

| (10) <i>Directors' and Officers' Remuneration:</i> | Number | Aggregate Remuneration |
|--|-------------------------------|------------------------|
| Directors 1972 | 15 | \$ 20,000 |
| 1971 | 14 | 19,000 |
| Officers 1972 | 13 (4 of whom were directors) | 217,000 |
| 1971 | 12 (3 of whom were directors) | 163,000 |

In 1971 and 1972, five of the officers did not receive any remuneration as officers from Churchill Falls.

Auditors' Report to the Shareholders

We have examined the balance sheet of Churchill Falls (Labrador) Corporation Limited as at December 31, 1972, and the statements of income and retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1972, and the results of its operations and the source and use of its funds for the year then ended, in accordance with generally accepted accounting principles which, except for the change in method of providing for depreciation, occasioned by the commencement of commercial delivery of power, as described in note 2 to the financial statements, have been applied on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.,
Chartered Accountants

Montreal, Que.,
February 5, 1973



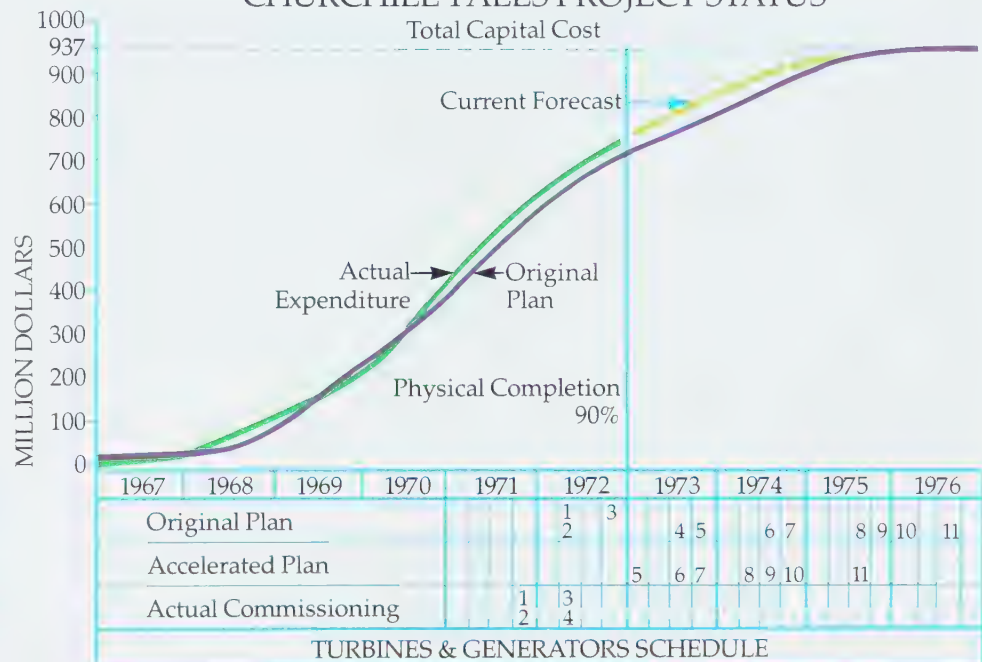
CHURCHILL FALLS PROJECT SOURCE AND USE OF FUNDS (\$ in Millions)

| Total Capital Cost | | Source of Funds |
|--------------------|--|---------------------------|
| \$564.0 | | First Mortgage Bonds |
| 100.0 | | General Mortgage Bonds |
| 34.0 | | Bank Loan |
| 83.0 | | Shareholders' Investment |
| 156.0 | | Cash Flow from Operations |
| \$937.0 | | |

The total capital costs of the Churchill Falls project include direct construction costs of \$666 million and interest and corporate costs of \$270 million. At December 31, 1972, direct construction costs incurred totalled \$584 million, and interest and corporate costs amounted to \$132 million. These costs were paid from funds derived from first mortgage bonds, general mortgage bonds, bank loan, shareholders' investment and cash flow from operations.

Total capital costs incurred by Churchill Falls (Labrador) Corporation Limited as at December 31, 1972, amounted to \$716 million which slightly exceeded original planned expenditures due to project acceleration. Actual construction work was approximately 90 per cent complete at the end of 1972.

CHURCHILL FALLS PROJECT STATUS



(Continued from page 4)

Gull Island

Another suitable site for hydro-electric power development on the Churchill River is located at Gull Island, 130 miles downriver from Churchill Falls. To date, more than \$3 million has been spent to determine the feasibility of the proposed project.

Negotiations continue with the Government of Newfoundland with a view to development of this site which would have an installed capacity of 1,800 megawatts, about one-third the capacity of the Churchill Falls station.

British Columbia

Iskut Pulpower Ltd., of Vancouver, B.C., which is controlled by Brinco, continued investigations of potential power sites in northwestern British Columbia. Electricity generated in this area is essential for further economic development of known mineral and forest resources. Work last year consisted primarily of measuring stream flows to provide more precise data for power plant design.

MINING

Whales Back

The Whales Back copper mine near Springdale, Newfoundland, was closed June 3, 1972, because the ore reserves were exhausted. Since 1965, when the mine and mill began operating, 4,405,000 tons of ore grading less than one per cent copper were milled.

Where possible, buildings and equipment, some of which required rehabilitation, are being sold. The shaft has been sealed and the mine is being flooded. The 30 houses owned by Brinex in Springdale have been sold to employees or to local families.

As a result of efforts by the company working in conjunction with Canada Manpower and the Newfoundland Department of Labour, all but 18 of 165 employees on the mine payroll when the closure of the mine was announced, have been successful in obtaining other employment or have returned to trade school to improve their qualifications.

Abitibi Asbestos

During the year Brinco entered into an agreement with Abitibi Asbestos Mining Company Limited of Val d'Or, Que., to pursue the possible development of Abitibi's asbestos properties in northwestern Quebec.

Under the agreement Brinco purchased 800,000 treasury shares of Abitibi Asbestos at \$2.50 a share to acquire an 18 per cent interest in Abitibi. Of the \$2 million so raised, \$1.5 million is being spent for construction and operation of the pilot plant, under Brinco management, for additional work to confirm ore reserves and grade, for mine planning and for marketing studies. The remainder is for general corporate purposes. The pilot plant, now operating, is on Abitibi's main asbestos property in Maizerets Township 52 miles north of Amos, Que. Additional work is underway to confirm reserves and grade, and to complete mine planning and market studies.

If Brinco decides, before expiration of its rights in 1976, to place the property in production, it will have the right to acquire a 51 per cent interest in Abitibi.

The pilot plant has a daily capacity of approximately 30 tons of ore. Underground mine workings developed earlier have been rehabilitated and extended to provide more precise data on the extent and quality of the asbestos deposit.

In November 1972, Abitibi Asbestos reported to its shareholders that drilling on another company property about four miles from the main property has intersected asbestos-bearing rock.

EXPLORATION

Last year Brinco broadened its mineral exploration program in western Canada, particularly in British Columbia. At the same time it maintained an active field program in Labrador, and on the island of Newfoundland.

In the Robb Lake area of British Columbia, more than 800 claims have been acquired by option on promising geological formations. Geological and geochemical exploration during the summer verified the existence of lead-zinc mineralization and outlined several targets for more intensive exploration.

A joint venture in which Brinco has a 40 per cent interest has staked 272 claims in areas having gold potential in south central British Columbia. Geological, geochemical and induced polarisation survey data from the claims area are being studied.

Field exploration programs were carried out in eastern and central Newfoundland while in central Newfoundland, Noranda Exploration Co. Ltd., in a joint venture with Brinco, conducted ground surveys to check anomalies revealed during the 1971 airborne geophysical survey.



Closing in development headframe for winter operation at Abitibi Asbestos deposit.



Mining engineer examines typical vein structure in Abitibi Asbestos deposit.

Mobil Oil Canada, in a joint venture with Brinco and Golden Eagle Canada Limited, carried out a seismic survey on St. Georges Bay, western Newfoundland, during the winter of 1971-72. This work gives Mobil the right to earn an interest in the area by committing, not later than January 1, 1974, to the drilling of a well.

Brinco and Golden Eagle entered into a joint venture with Union Oil of Canada Limited in the Anquille Mountains area of western Newfoundland. Initial reconnaissance was carried out in preparation for more intensive work during 1973 by Union, which may earn an interest in the lands by drilling before July 1, 1974.

Other exploration ventures in Labrador and British Columbia which proved disappointing were terminated.

NUCLEAR

During 1972, Brinco continued to pursue a program directed toward the establishment in Canada of a facility for the isotopic enrichment of uranium. As firm orders for additional nuclear units by power utilities throughout the world continue to be announced, the impending shortfall in enriched uranium production capacity becomes ever more certain. The past year has seen a major increase in the number of groups actively involved in planning either gaseous diffusion or centrifuge enrichment facilities in various parts of the world to meet part of this need.

The Brinco team devoted to the uranium enrichment program has been augmented over the past year and has continued and expanded its efforts in a number of areas. These include technical, financial, and market studies, contacts with potential customers and multinational partners, and planning for a feasibility study.

Canadian government policy with respect to the establishment of a uranium enrichment facility in Canada has yet to be announced.

FINANCIAL

Consolidated net income of Brinco Limited for 1972, before a one-time mine shut-down cost, amounted to \$1,816,000 or 7.9¢ per share. This compares to a consolidated net loss of \$2,277,000 for 1971. The consolidated net income for 1972 after the mine shutdown cost of \$557,000 amounted to \$1,259,000 or 5.5¢ per share.

Revenue declined from \$3,599,000 in 1971 to \$2,583,000 in 1972, principally as a result of closing the Whales Back Mine at the beginning of June. Additionally, 1972 net income has been reduced by the costs of mine shutdown amounting to \$557,000.

By far the major improvement in 1972 income resulted from the increase in the Company's share of the income of its unconsolidated subsidiary — Churchill Falls (Labrador) Corporation Limited — amounting to \$2,443,000 in 1972, an increase of \$2,148,000 over 1971. The increase in Churchill Falls' income resulted from the commencement in May, 1972, of commercial power deliveries.

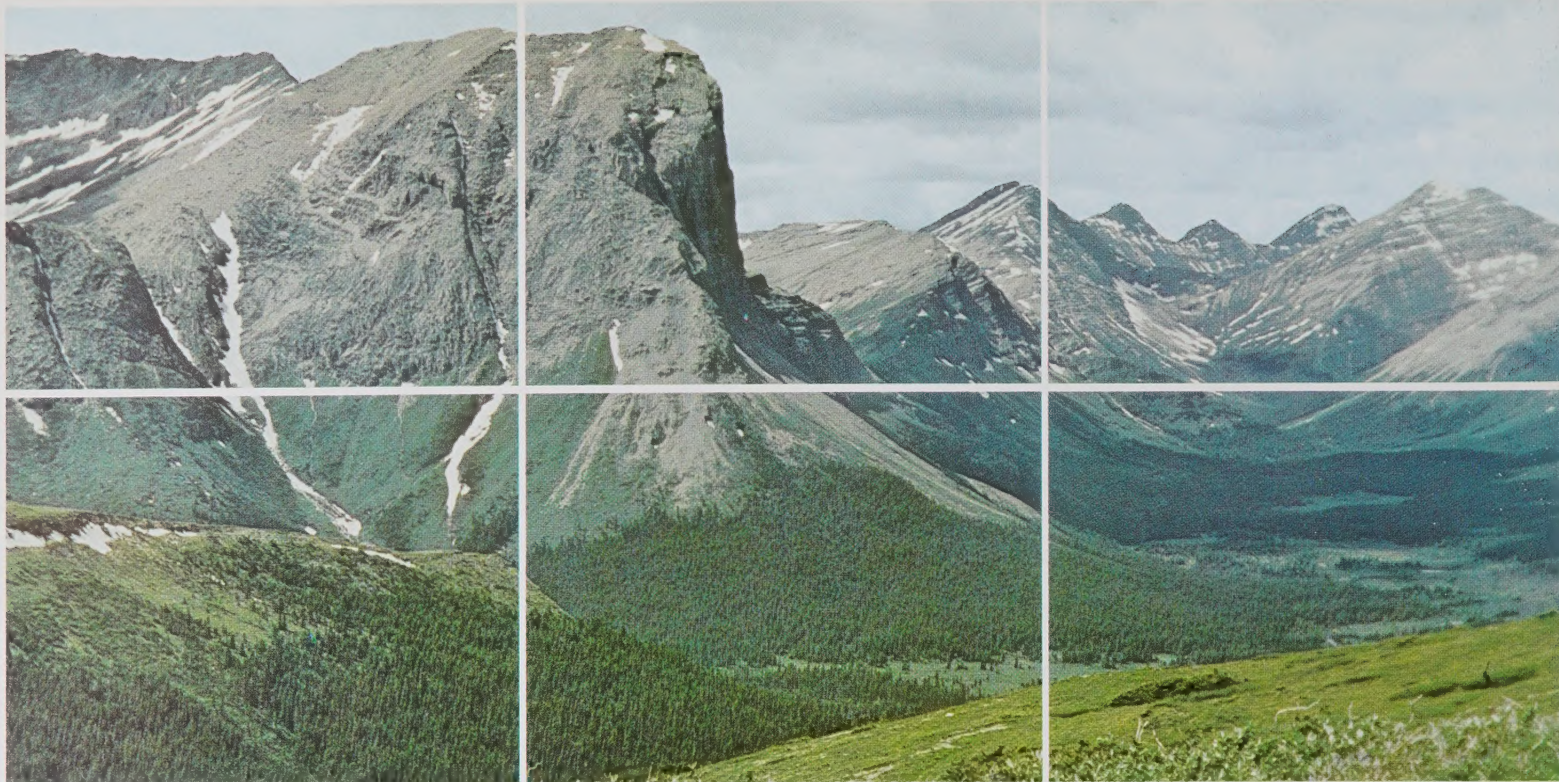
Exploration expenditures amounted to \$1,164,000 in 1972, compared with \$1,048,000 in 1971. In addition to the Company's investment of \$2 million in Abitibi Asbestos Mining Company during 1972, the Company incurred expenditures in natural resource areas amounting to \$540,000. These expenditures included further work by the Company's staff on the Gull Island project and uranium enrichment studies, and finally, some additional field work in northern British Columbia to investigate potential power sites.



Scenery typical of Iskut Valley in northwestern British Columbia.



Unloading freight at Lady Laurier Lake in Robb Lake area of B.C. where more than 800 claims have been acquired by Brinco.



In the rugged mountains of B.C., above and right, the helicopter is the proven workhorse as it is in the wilds of Labrador.

CORPORATE ORGANIZATION

During the year Ralph B. McKibbin of Ottawa, formerly Deputy Governor of the Bank of Canada, was appointed a Director.

R. D. Boivin, P.Eng., W. E. Bradford, C.G.A., and Dr. P. H. Grimley, B.Sc., Phd., were appointed vice-presidents. M. C. Burnes, C.A., was appointed secretary, and A. M. S. White, C.A., was appointed treasurer. In February, 1973, L. A. Carrier, C.A., was appointed comptroller.

We report with deep regret the passing in December, 1972, of B. C. Gardner, M.C., the first President and Chairman of the Board of Directors of Brinco. He was 88. Mr. Gardner's business and personal skills were exercised to the full in the first years of what then was British Newfoundland Corporation Limited, and it would be hard to over-estimate his contributions to the present success of your company. He will be missed and remembered with great affection.

The successful inauguration of Churchill Falls and the important advances in other company ventures are a tribute to the dedicated men and women in the Brinco companies. To them, on your behalf, your directors express their sincere appreciation.

Robert D. Mulholland, Chairman

William D. Mulholland, President

Montreal, Que., February 28, 1973



Brinco
LIMITED